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TN REGULATORY

March 9, 2005

Director Ron Jones
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

Re Docket No. 04-00211

Dear Director Jones

Thank you for the opportunity to appear before you and the other directors to discuss inmate telephone service ("ITS") in Tennessee. During the hearing you raised several good questions.

I would like to provide a more complete explanation of the question you raised regarding our increasing cost of customer service and the impact this increase is having on our revenues. Your question correctly stated that when businesses increase their costs, there should be a corresponding increase in revenues. Unfortunately, that is not the case in this situation. To best understand what is happening today we need to explain how we conducted business before C-LECs and wireless carriers.

In years past, inmates would place collect calls to family or friends that had local phone service with BellSouth or an independent LEC. These LECs provided Billing and Collection agreements to clearinghouses or directly to ITS providers. ITS providers submitted billing tapes to LECs and were paid for the calls minus an allowance for bad debt.

Today ever increasing numbers of inmates place collect calls to family and friends that have local phone service with C-LECs and wireless carriers that refuse to bill collect calls. ITS providers have been forced to increase customer service staff to contact these customers and attempt to set up billing arrangements on an individual basis.

Inmate calls to C-LEC and wireless numbers (where permitted by confinement facilities) are increasing at a dramatic rate. The reality is

- 1) Billable revenues are declining
- 2) Customer service staffing costs are increasing in an attempt to recapture lost revenue

- 3) The cost to recapture this revenue is significantly higher than previous Billing and Collection and Bad Debt expense so net revenues are declining
- 4) Due to the fact that an average of 50% of inmates are released within 48 hours, in many cases there is not enough time to establish billing arrangements prior to the inmate's release. Regrettably, this can mean that inmates in this situation are not able to communicate with loved ones during this time. When billing arrangements have been established, frequently after the inmate is released, there is little motivation for the called party to pay the bill and uncollectibles rise

One positive step the TRA should take to improve the quality of service to inmate families and remove some of the upward pressure on rates would be to require C-LECs and wireless carriers to provide billing and collection agreements for ITS calls. This action would benefit consumers by enabling them to receive calls to C-LEC and wireless numbers without interruption or delays. Billing and collection agreements would enable ITS providers to reduce their costs and improve collections.

Pay Tel and the other ITS industry participants would gladly work with the TRA to help bring a higher quality of service to the citizens of Tennessee through establishing these billing and collection agreements. Absent attention to this issue now, costs will continue to rise, putting more pressure on making an additional increase in rates imperative this year.

Thank you for your time and consideration

Sincerely,



Vincent Townsend

VT/bp

cc. ✓ Chairman Pat Miller
Director Deborah Taylor Tate
Director Sara Kyle